MULTIMEDIA UNIVERSITY

STUDENT ID NO									

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FINAL EXAMINATION

TRIMESTER 2, 2020/2021

BAC3644 – TAXATION 2

(All Sections/Groups)

6TH MARCH 2021
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Moon Prongs Sdn. Bhd. (MPSB) has been in the manufacturing business for seventeen years with a workforce of 240 employees. From its factory complex in Sepang, MPSB designs and produces computerised aeronautics navigation systems used in drones, unmanned aerial vehicles, as well as aeroplanes and helicopters. All its products are sold under locally patented brand name of "NaviProngs". MPSB has been successful in the international market as 70% of its products are for European export market through a distribution company based in Singapore.

Based on its records, MPSB had an issued and paid-up capital of RM2.25 million as at 1st January 2019. 70% of its shares were owned by Malaysians, while a German listed firm owned another 25%. The balance was owned by a Kuwaiti private corporation.

MPSB's statement of comprehensive income for the financial year ended 31st December 2019 is as follows.

Moon Prongs Sdn. Bhd.
Statement of Comprehensive Income
For the financial year ended 31st December 2019

	Note	RM'000	RM'000
Sales			21,000
Less: Cost of goods sold			
Inventory b/f		1,928	
Costs of goods manufactured	1	13,579	
Costs of goods available for sale		15,507	
Less: Inventory c/f		(1,642)	(13,865)
Gross income			7,135
Add: Other income	2		110
			7,245
Less: Expenses			
Salaries and wages	3	3,200	
Advertising and promotion	4	460	
Administration and finance	5	51	
Foreign exchange loss	6	18	
Research and development	7	290	
Professional fees	8	382	
Fixed assets written-off		26	
Donations	9	13	(4,440)
Net income before taxation			2,805

Continued …….

Notes to the accounts:

1. Costs of goods manufactured included the following expenses:

	RM'000
Depreciation of plant and manufacturing equipment	137
Royalty payment paid to a company resident in Sabah for the use of proprietary manufacturing procedure on 14th October 2019. No withholding tax had been deducted from this payment.	212
Advance made to a related company who required funds. However, the related company was wound-up later in the year by court order.	47.3

2. Other income was made up of:

   A few years ago, MPSB had made an investment in a technology company listed in the Main Market of Bursa Malaysia. It received a single-tier dividend of RM6,000 from this investment during the year 2019. Shortly after receiving the dividend, MPSB disposed of the shares at a loss of RM30,000.

   A monthly rent of RM10,000 was derived from a land that MPSB had let out for the entire year of 2019.

   MPSB also received an interest income of RM14,000 from its security deposit made in a Malaysian financial institution.

3. Salaries and wages expenses included the following expenses:

	RM'000
Salaries and wages (15% was paid to disabled employees)	2,000
Overtime payments for production workers	546
Travelling allowance for sales executives	254
Employees' Provident Fund contribution for employees who are not disabled	400

4. Advertising and promotion expenses comprised of the following expenses:

	RM'000
Advertising the company's brand name in Malaysia	357
Advertisements of job vacancies	96
Obituary messages in newspapers on the passing of the CEO's father	7

5. Administration and finance expenses included:

	RM'000
Entertainment provided to a visiting management team from related company	3

Continued …….

Interests on loans paid to a Malaysian bank. While the bulk of the loans were used to finance the company's working capital, ⅛ of the total was related to the purchase of the land rented out.	48

6. Foreign exchange loss was made up of the following expenses:

	RM'000
Realised loss from collected trade receivables	5
Loss from acquisition of new machine from Germany. The loss had been realised as at the end of the financial year.	13

7. Research and development expenses consisted of the following expenses:

	RM'000
Revenue expenses on research and development of new satellite triangulation system. This activity has been approved by the Director General of Inland Revenue Board of Malaysia (IRBM).	170
Acquisition of new lab equipment to facilitate the research and development of the new satellite triangulation system	120

8. Professional fees comprised of the following expenses:

	RM'000
Legal fees paid for filing a lawsuit to recover stolen assets by former external contactor	152
Initial patent registration expense in Malaysia for "NaviProngs" products	105
Participation costs in an international trade fair for promotion of export in Cyberjaya organised by the Ministry of International Trade and Industry	35
Statutory audit fees	40
Website development cost. The website serves as a tool to communicate with the current and potential customers, investors, as well as employees' portal. The website is not e-commerce enabled.	50

9. Donations consisted of the following expenses:

	RM'000
Cash donations to approved charitable institutions	8
Construction of a public restroom as part of the company's social responsibility programme with approval from the relevant authorities	5

Other information:
MPSB recorded capital allowance totalling RM391,000 for the Year of Assessment (YA) 2019.

Required:

Calculate the income tax payable for Moon Prongs Sdn. Bhd. for YA2019.

Continued …….

Note: Indicate 'NIL' in the appropriate column for item that does not require adjustment. Round up all your answers into the nearest Ringgit Malaysia (RM), except for the income tax payable figures.

(20 marks)

QUESTION 2

Part A

Clean Earth Sdn. Bhd. (CESB) is a company involved in manufacturing iron products with an annual accounting year-end of 31st August. The following table provides relevant information on the manufacturing activities of CESB for the recent years of assessments (YAs).

YA	Adjusted income (RM)	Capital allowance (RM)
2015	391,070	162,000
2016	348,600	163,000
2017	155,200	164,000
2018	(99,990)	145,000
2019	400,330	169,000

As a way to reduce its dependency to its suppliers, CESB has begun to dabble in mining activities. On 1st September 2014, it had begun a three-year prospecting activity. According to the company's books, the total qualifying expenditures incurred throughout this process was RM341,987, whereby 45% was incurred in the first year, 33% was incurred in the second year, and the balance in the final year.

Due to the considerable qualifying expenditures, CESB had applied for a grant from the Ministry of Energy and Natural Resources. Its application was successful for RM182,000, which was paid into its account on 15th May 2017.

At the end of the third year of prospecting activity, the result indicated that there was a substantial iron ore deposits in the area. The potential mine would have an estimated life of twenty years. Based on this, CESB had applied and subsequently obtained a license from the authorities to mine the iron ore on 2nd January 2017. However, it only commenced the mining operation on 1st September 2017.

The accounts indicated that the gross income from the mining operation are as follows:

YA	Gross income (RM)
2018	315,290
2019	460,780

Continued …….

Required:

Analyse the advantage for Clean Earth Sdn. Bhd. to elect for Paragraph 5(a) of Schedule 4 of the Income Tax Act 1967 (as amended) in computing its chargeable income for the applicable YAs. Support your advice by using relevant computations. Round up all your answers into the nearest Ringgit Malaysia (RM).

(10 marks)

Part B

Alilija Sdn. Bhd. (ASB) was incorporated in the year 2010 and has been a tax resident in Malaysia ever since. As a property development company, its main business activity is construction of residential buildings.

In November 2018, ASB had been awarded two construction contracts. The first was a two-year contract to build bungalow houses in Sungai Siput, Perak. The second was an eighteen-month contract to build a thirty-storey luxury condominium complex in Toa Payoh, Singapore.

In order to finance both of these projects, ASB had obtained a financing arrangement from the Merchant Bank of India (MBI), which is a non-resident financial institution. The followings are the interests paid by ASB to MBI in the financial year ending 2019:

i. RM190,000 for the Sungai Siput project; and
ii. RM280,000 for the Toa Payoh project.

ASB had successfully completed both its projects ahead of schedule. In celebration of its success, ASB had engaged a popular band of singers from South Korea to perform during the official launching ceremonies of its projects in December 2019. The fees credited to the band on 31st December 2019 are listed below:

i. RM30,800 for the launching ceremony in Sungai Siput; and
ii. RM47,000 for the launching ceremony in Toa Payoh.

Required:

Discuss the tax implications of each of the above payments made by Alilija Sdn. Bhd.

(10 marks)

(Total: 20 marks)

Continued …….

QUESTION 3

Part A

Susan, who is a tax resident in Malaysia, owns a tuition centre in Kajang, Selangor. The business closes its account to 31st December every year. In January 2020, she had been under investigation by the Inland Revenue Board of Malaysia (IRBM). She was thus required to provide information in respect of her taxes.

Susan's declared net assets as at 31st December 2018 and 31st December 2019 were RM320,000 and RM430,000 respectively. For the year ended 2019, she had received income from business of RM176,000, interest income of RM6,000, and rental income of RM12,800. Susan had acquired 2,000 units of shares at RM2.50 per share in the year 2016. In February 2019, she had sold 1,200 units of these shares at RM6.00 per share. Meanwhile, in June 2019, Susan had disposed of her car for RM47,000, which she acquired earlier for RM68,400.

Besides, Susan had owned a flat house she purchased in the year 2010 for RM90,000. It was however sold on 16th September 2019 at a gain of RM34,000. She had also received RM36,000 from her late father's estate in the year 2019. She had provided the evidence for this transaction. Susan had incurred private and personal expenses amounting to RM152,800 in the year ended 31st December 2019. These expenses comprised of her living expenses, medical expenses, income taxes, as well as other miscellaneous expenses.

Required:

Using the information provided, determine whether there is any discrepancy in the accounts for the Year of Assessment 2019 using the capital accretion method.

(12 marks)

Part B

Tax evasion involves the employment of artificial or fictitious transactions (Choong, 2019) and it is a serious problem affecting the collection of income tax in this country. If left unchecked, tax evasion will further erode the provision of public goods and services as well as wealth distributions among the citizens of Malaysia (Mohanadas et al., 2020). Thus, as the national tax authority, Inland Revenue Board of Malaysia (IRBM) possesses in its arsenal various methods to discover the evaders among taxpayers in Malaysia.

Required:

Determine FOUR (4) tax investigation procedures conducted by the IRBM.

(8 marks)

(Total: 20 marks)

Continued …….

QUESTION 4

Rina, who is a Malaysian citizen, had made the following transactions with regard to her properties in the year 2019 before leaving Malaysia permanently in January 2020:

i. A piece of land in Selangor was sold on 23rd March 2019 at the price of RM250,000. Rina had received the land from her late father on 3rd April 2011 without any cost. Her father had bought the land in January 2001 at RM100,000. In disposing of the land, Rina had incurred valuation fee and real estate agent's fee amounting to RM2,800 and RM3,500 respectively.

ii. A shop lot in Cheras, Kuala Lumpur was sold for RM510,000 on 15th November 2019. Rina had incurred a real estate agent's fees of RM10,500, valuation fee of RM5,300, and advertising cost of RM2,200 in connection with the disposal. The shop was acquired on 1st February 2014 for RM480,000 by Rina. She had incurred legal fees and stamp duty amounted to RM6,900 and RM18,050 respectively during the acquisition. Rina obtained a loan from a local bank to finance the property for which she had paid interest amounting to RM6,000 in the year 2019.

iii. An apartment in Melaka owned by her was sold in December 2019, which was the fifth year after its acquisition at the disposal price of RM320,000. The acquisition price was RM260,000. This apartment had been rented out before its disposal.

iv. A semi-detached house which ownership was transferred to her son, 25-year-old Aman, as a gift. Rina had paid RM380,000, which included the stamp duty and legal fees totalling RM8,600, to acquire this property in January 2008.

Required:

a. Compute the real property gains tax payable (if any) with regard to the disposals of Rina's properties in the year 2019 assuming that she did not elect for Private Residence Exemption. Write down your answers in two decimal points, where necessary.

(12 marks)

b. Illustrate Rina's eligibility for Private Residence Exemption on any property owned and disposed by her as above.

(6 marks)

c. Choose TWO (2) responsibilities of Rina in reference to her disposal of the properties she owned.

(2 marks)

(Total: 20 marks)

Continued …….

QUESTION 5

Tube Sdn. Bhd. ('the company') is a Malaysian resident company. It had earlier submitted an application for investment incentives for its manufacturing business in promoted product. Its application was approved on the 15th September 2016.

The company closes its accounts on 31st December annually. The following table provides the details of the company's business.

	Year 2018 RM'000	**Year 2019 RM'000**
Manufacturing business:		
Adjusted income	780	960
Capital allowance	202	290
Balancing allowance	-	24
Qualifying expenditure:		
Plant and machinery	560	-
Factory	-	1,200
Trading business:		
Adjusted income/ (Loss)	390	(200)
Balancing allowance	180	-
Capital allowance	112	125
Balancing charge	42	-
Investment income:		
Interest income	120	130
Dividend income	68	54
Other income:		
Gains on disposal of trading business' plant and machinery	55	-
Other information:		
Approved cash donation	30	35

Required:

i. Compute the tax-exempt income and chargeable income for the Years of Assessment (YAs) 2018 and 2019 in respect of the business if Tube Sdn. Bhd. was given the pioneer status of 70%.

(10 marks)

Continued …….

ii. Compute the tax-exempt income and chargeable income for the YAs 2018 and 2019 in respect of the business if Tube Sdn. Bhd. was awarded the investment tax allowance of 60%.

(10 marks)

Note: Re-computation of capital allowances is NOT necessary. Show all workings.

(Total: 20 marks)

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

1. Tax rates for companies for the Year of Assessment (YA) 2019.

a. SME companies

Chargeable Income	Tax Rate
≤ RM500,000	17%
Excess of RM500,000	24%

b. Non-SME and non-resident companies

Chargeable Income	Tax Rate
Any amount	24%

2. Tax rates for non-resident person (other than non-resident companies).

Type of Income	Tax Rate
Contract payment	10% + 3%
Interest	15%
Royalty	10%
Public entertainer remuneration	15%
Technical and management fee	10%
Lease rental of movable properties	10%
Section 4(f) income	10%

3. Capital and industrial building allowances.

Types of asset	Initial allowance rate (%)	Annual allowance rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings, others	20	10
Computers, information technology equipment and computer software	20	40
Industrial building	10	3

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4. Agricultural and forest allowances.

Capital expenditure – Agriculture	**Rate of allowance**
a. Clearing and preparation of land for the purpose of agriculture.	50%
b. Planting of crops on land cleared for planting.	50%
c. Construction on a farm of roads or bridges.	50%
d. Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm.	20%
e. Any other building.	10%

Capital expenditure – Forest	**Rate of allowance**
a. Construction of roads or buildings used for the purposes of extracting timber from a forest.	10%
b. Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20%

5. Real Property Gains Tax (RPGT) for the period from 01/01/2019 until 31/12/2019.

Disposal	**Individual Citizens and Permanent Residents**	**Non-citizens and Non-permanent Residents**	**Companies**	**Others**
Within 3 years	30%	30%	30%	30%
In the 4th year	20%	30%	20%	20%
In the 5th year	15%	30%	15%	15%
In the 6th year and onward	5%	10%	10%	5%

End of Paper.